

Megmilk Snow Brand

FYE3/2020 Financial Results

Group Medium-term Management Plan 2022

May 13, 2020



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FYE3/2020 Consolidated Financial Results

Group Medium-term Management Plan 2019



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FYE3/2020 Consolidated Financial Results



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■ Operating Result ■

(Billion yen, %)

| | FYE3/2019 | FYE3/2020 | YoY change | YoY % change | Achievement rate |
|------------------|-----------|-----------|------------|--------------|------------------|
| Net sales | 603.3 | 613.4 | 10.0 | 101.7 | 100.2 |
| Operating profit | 17.2 | 17.9 | 0.7 | 104.5 | 104.0 |
| Ordinary profit | 19.0 | 19.6 | 0.6 | 103.5 | 103.6 |
| Profit * | 10.7 | 12.1 | 1.4 | 113.1 | 105.8 |

* Profit attributable to owners of parent

Forecasts reflect figures published in financial earnings summary released on February 7, 2020

■ Dividends ■

Ordinary dividends

40 yen

Consolidated
payout ratio

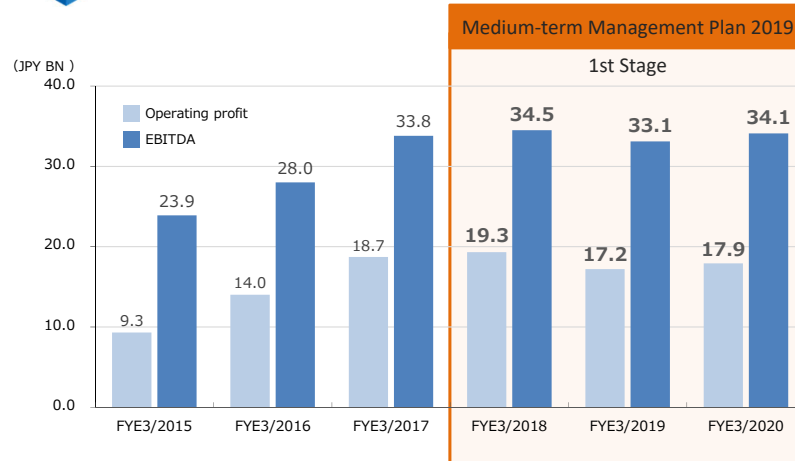
22.3%



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Transitions in consolidated financial results



General review

- 1 Insufficient response to cost increases
- 2 Decline in marketing investment efficiency
- 3 Stagnant earnings in Beverages and Desserts Business Sector

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Group Medium-term Management Plan 2022



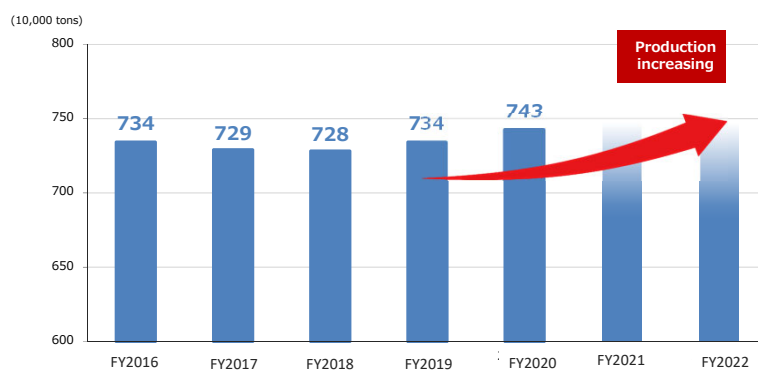
Market analysis



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Transitions in fresh milk production in Japan (nationwide)

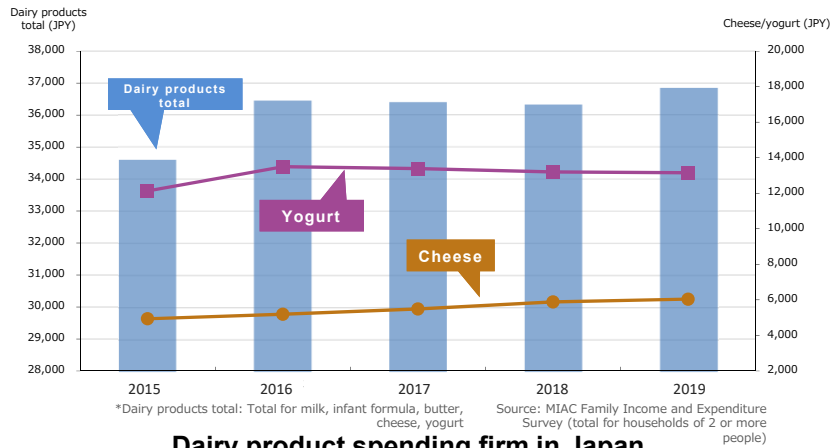


Source: MAFF Statistics of Milk and Milk Products, internal forecasts

Forecast shift to increased fresh milk production in Japan from FY2019



Trends in household dairy product spending



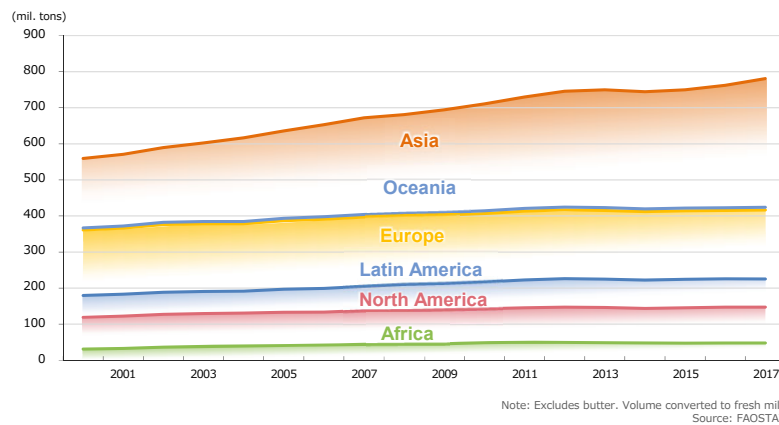
Dairy product spending firm in Japan



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Trends in global dairy product consumption volume

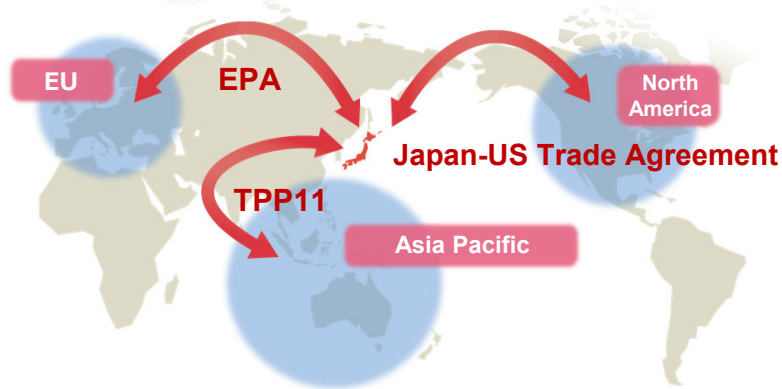


Global dairy product consumption growing



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Globalization of dairy products



| | First Stage | Second Stage | Third stage |
|-------------|--|--|---|
| | FY2017-FY2019 | FY2020-FY2022 | FY2023-FY2026 |
| Positioning | Begin Transformation Start and promote Group management | Accelerate Transformation Strengthen development of Group management | Toward Renewal Accelerate and renew Group management |
| Role | -Create multiple earnings bases and maximize cash flow -Begin renewal of the production structure | -Establish earnings bases -Begin full-fledged renewal of the production structure | -Stable creation of earnings through four business sectors -Accelerate production structure innovation |

Medium-term Management Plan 2022 Initiative Policy

- 1 Advance productivity improvement reforms
- 2 Advance business structure reforms
- 3 Promote innovation in our production structure

Group Management Fundamentals

- Enhance Group management
- Initiatives to achieve sustainable Group development

Medium-term goal management benchmarks(Consolidated)

(Billion yen)

| | FYE3/2020 (result) | FYE3/2023 (forecast) | Growth rate (vs. FYE3/2020) |
|-------------------------------------|-----------------------|-------------------------|--------------------------------|
| Net sales | 613.4 | 640.0 | 104.3% |
| Operating profit (per Net sales) | 17.9 (2.9%) | 22.0 (3.4 %) | 122.2% |
| EBITDA | 34.1 | 41.0 | 120.0% |

This forecast doesn't reflect Accounting Standard for Revenue Recognition



1. Dairy Products Business Sector

Butter, margarine, cheese (domestic and overseas), etc.



2. Beverages and Desserts Business sector

Milk and milk beverages, yogurt, fruit juice and vegetable juice, soft drinks, desserts, etc.



3. Nutrition Business Sector

Infant formula (domestic and overseas), functional foods, functional ingredients, etc.



4. Feedstuffs and Seed Products Business Sector

Feedstuffs, seeds (forage grass and crops, vegetables), landscape gardening, etc.



[Dairy Products] including Nutrition Business

(Billion yen, %)

| | FYE3/2020 | FYE3/2023 (forecast) | Change | Growth rate (vs. FYE3/2020) |
|------------------|-----------|----------------------|--------|-----------------------------|
| Net sales | 249.0 | 275.0 | +26.0 | 110.4 |
| Operating profit | 11.5 | 14.0 | +2.5 | 121.7 |

- Expand production and sales of consumer butter
- Strategic expansion of cheese



Start operations at new butter building in Isobunnai Plant

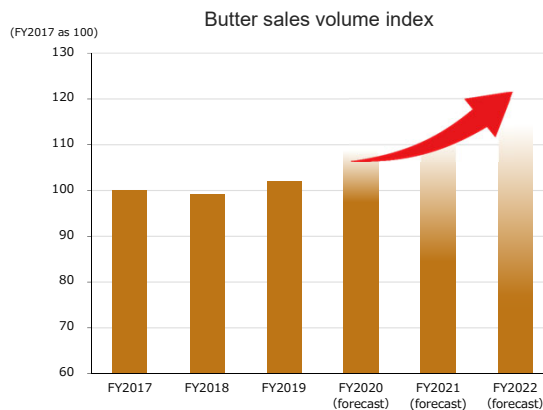
- ◆ FY2021 Full start of new Isobunnai butter building
- ◆ Latest production facilities to promote optimization and structure to increase production



*Construction completion image for new wing



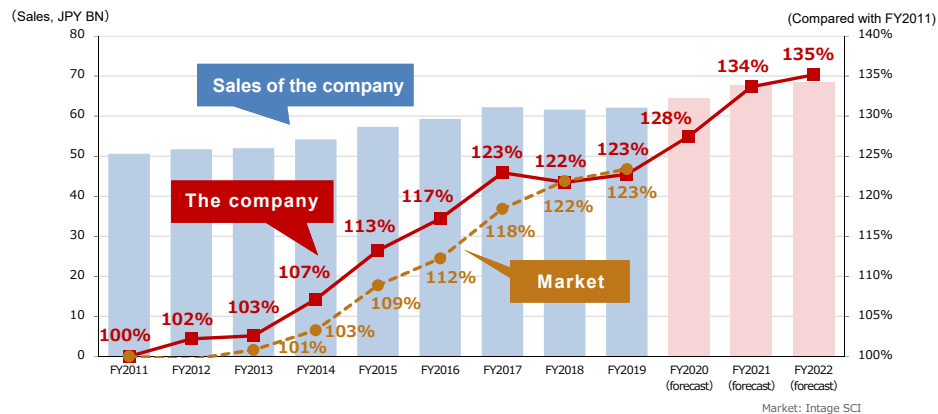
Consumer butter production and sales plan





Expand sales of consumer cheese

Firm sales of consumer cheese in Japan on strong demand



Expand sales of commercial cheese

- 1 Expand soft cheese
- 2 Expand sales of natural cheese products in Japan
- 3 Promote pricing revisions and product mix improvements



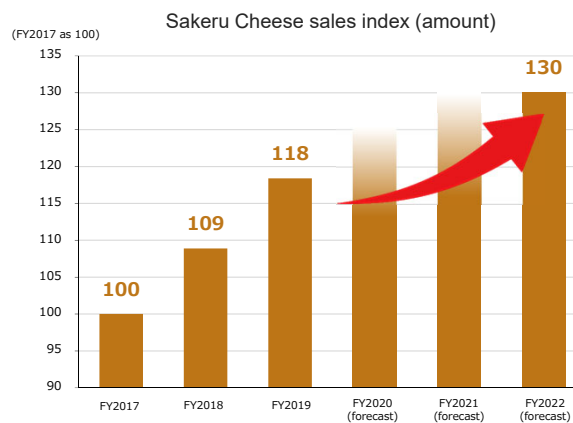


Strengthen Taiki Plant production structure

- 1 **Utility facilities**
Upgrade wastewater, water collection, and power facilities to enable increased production
- 2 **Sakeru Cheese**
Adopt AI auto product inspection to increase efficiency and production
- 3 **Camembert**
New wing construction and optimization investments to enable increased production



Further market growth for Sakeru Cheese





Borderless cheese market



Snow Brand Australia (SBA)

Offer in major mass volume channels with focus on Unicorn Brand



Udder Delights Australia (UDA)

Produces high value-added products such as premium blue cheeses and organic products. Offer through commercial sales channels and luxury food channels.



Megmilk Snow Brand Indonesia (MSBI)

Offer mainly sliced and block cheese. Also offering original soft cheese as commercial product.



3 company transitions in cheese sales

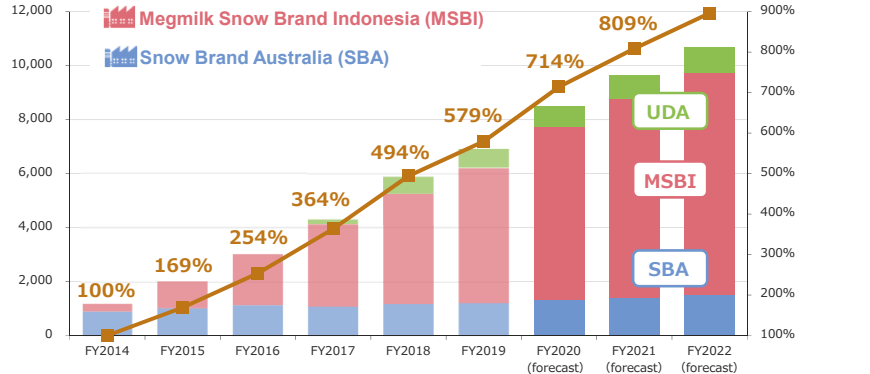
(amount, tons)



Udder Delights Australia (UDA)

Megmilk Snow Brand Indonesia (MSBI)

Snow Brand Australia (SBA)





[Beverages and Desserts Sector]

(Billion yen, %)

| | FYE3/2020 | FYE3/2023 (forecast) | Change | Growth rate (vs. FYE3/2020) |
|------------------|-----------|-------------------------|--------|--------------------------------|
| Net sales | 283.9 | 280.0 | (3.9) | 98.6 |
| Operating profit | 5.2 | 6.0 | + 0.8 | 115.4 |

- Strategic expansion of yogurt and desserts business
- Structural reforms for milk business



Enhance development of functional yogurt

Lactobacillus gasseri SBT2055 yogurt

Nyu-san-kin* Helve Yogurt

* Nyu-san-kin is Japanese for Lactic Acid Bacteria

Food with Function Claims



Lactobacillus gasseri SBT2055
reduces visceral fat

Food for Specified Health Uses (FOSHU)



Lactobacillus gasseri SBT2055
helps to reduce visceral fat

Food with Function Claims



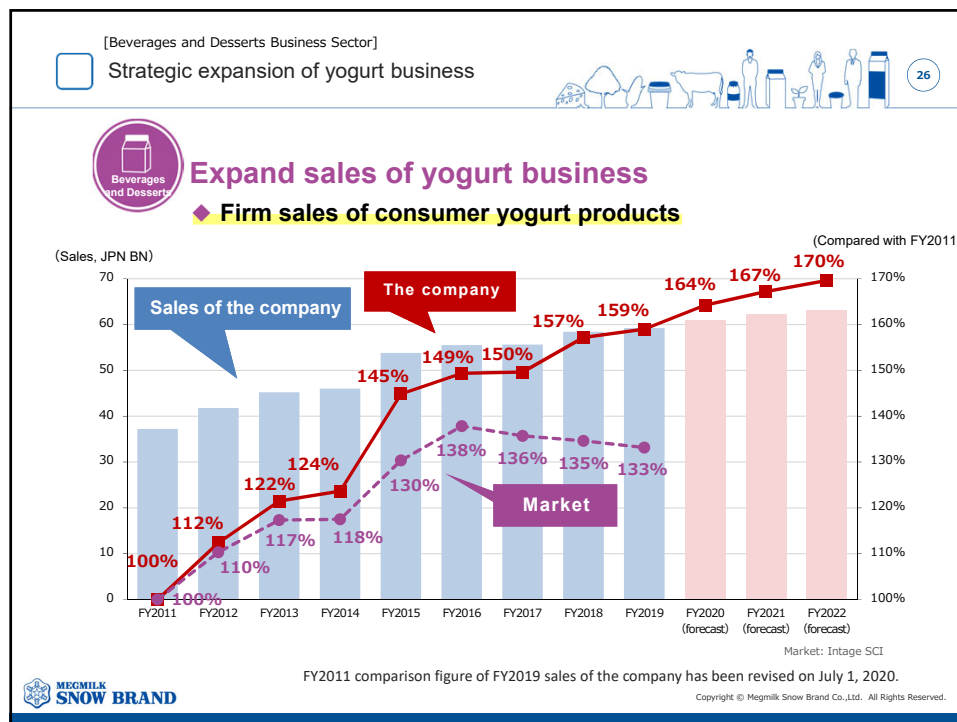
Improving eyes and nose discomfort

First entry for the
Japanese yogurt
market.

Yogurt for "eyes and
nose conditions"

Completed application as a food with function
claims as a product that improves eyes and nose
discomforts

Notification Number E9



[Beverages and Desserts Business Sector]

Strategic expansion of desserts business

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Firm hold on No. 1 share of market

- Launch operations at new desserts wing at Luna Bussan**

Production structure development

Luna Bussan exterior
- Review product line to improve profitability and develop new core products**

Enhance distinctive individual serving products

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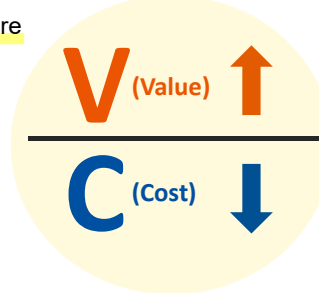
Initiatives to achieve operating profit in milk business

1 Initiatives to improve added value

- ◆ Develop and adopt distinctive and value-added products

2 Cost reduction initiatives

- ◆ Eliminate low-profitability products including PB
- ◆ Optimize production structure
- ◆ Optimize logistics



Develop and adopt distinctive, high-value added products

- ◆ Adopt product containers with caps





Optimize production structure

- ◆ End production of Nagoya Plant and consolidated into Toyohashi Plant (Mar. 2020)
- ◆ Create more efficient beverages and desserts business production structure



Toyohashi Plant exterior



【Nutrition Business Sector】

(Billion yen, %)

| | FYE3/2020 | FYE3/2023 (forecast) | Change | Growth rate (vs. FYE3/2020) |
|---------------------------------|-------------|-------------------------|-------------|--------------------------------|
| Net sales | 18.4 | 21.0 | +2.6 | 114.1 |
| (Breakdown) | | | | |
| Functional foods | 5.4 | 7.6 | +2.1 | 140.7 |
| Infant formula and other | 12.9 | 13.4 | +0.5 | 103.8 |

- Strengthen competitiveness of powdered milk business (Japan/overseas)
- Generate income from functional foods business



Strengthen competitiveness of Japanese infant formula (for infants)

1 Increase brand loyalty

◆ Expand and permeate customer contact points

Liquid infant formula

◆ Launch Bean Stalk Liquid Formula Sukoyaka M1

2 Promote breastmilk research and product development

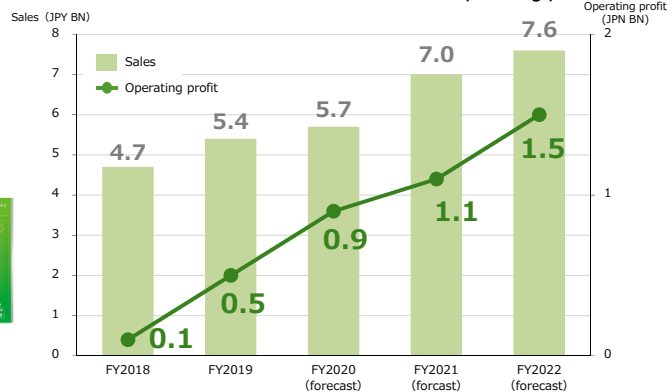
3 Enhance production platform

Liquid infant formula



Transition in earnings and goals

Transitions in functional food sales and operating profit





【Feedstuffs and Seed Products Business Sector】

(Billion yen, %)

| | FYE3/2020 | FYE3/2023 (forecast) | Change | Growth rate (vs. FYE3/2020) |
|------------------|-----------|-------------------------|--------|--------------------------------|
| Net sales | 43.7 | 44.0 | +0.3 | 100.7 |
| Operating profit | 1.0 | 1.0 | 0 | 100.0 |

- Optimize and improve quality for feedstuffs business
- Strategic expansion of seed products business



Construct new plant via joint venture

◆ Construct new company through joint venture between Hokuren Cooperative Feed Mills Co., Ltd. and Snow Brand Seed Co., Ltd.





Firm position and No. 1 for grass and green fertilizer

- ◆ Expand vegetable, green fertilizer, and microbes business
- ◆ Use new research facility to promote new seed development



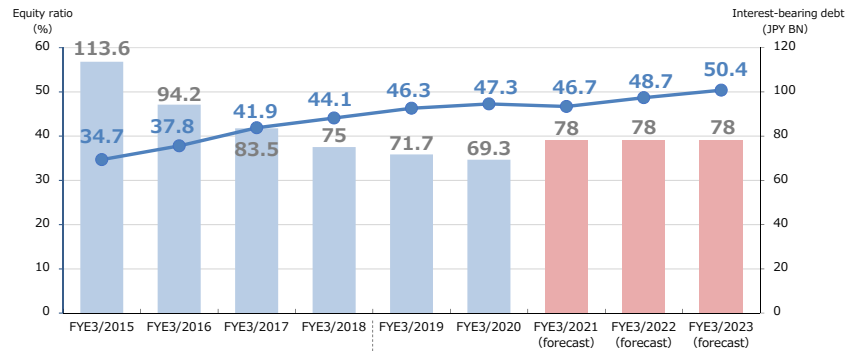
Snow Brand Seed Co., Ltd.
New agricultural research facility in Hokkaido



Investment and financial status forecast

| Item | MTMP2019 (goal) | MTMP2019 (results) | MTMP2022 (goal) |
|--|--------------------------------|--------------------------------|--------------------------------|
| Capital expenditure amount (3yr total) | JPY 77.0 BN | JPY 64.0 BN | JPY 86.0 BN |
| Consolidated ROE | 8% or higher | 7.1% | 8% or higher |
| Consolidated equity ratio | 40% or higher | 47.3% | 50% or higher |
| Consolidated dividend payout ratio | 20% or higher | 22.3% | 20%~30% |
| Consolidated interest-bearing debt | JPY 75.0 BN (end of FY2019) | JPY 69.3 BN (end of FY2019) | JPY 78.0 BN (end of FY2022) |

Equity ratio, interest-bearing debt, rating



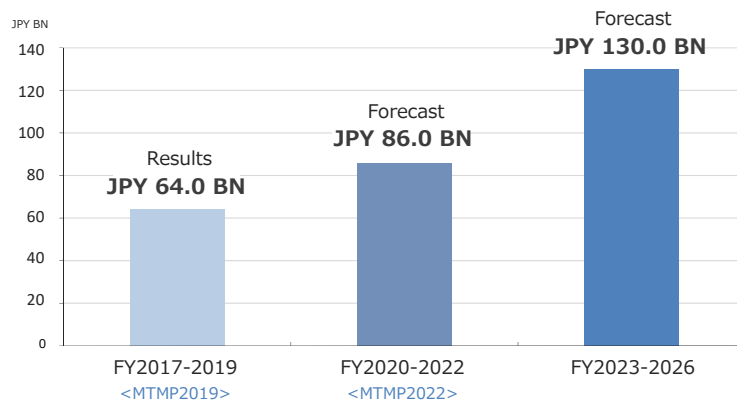
Before FYE3/2010 **BBB+**

After FYE3/2019 **A-**

[Rating and Investment Information, Inc.]

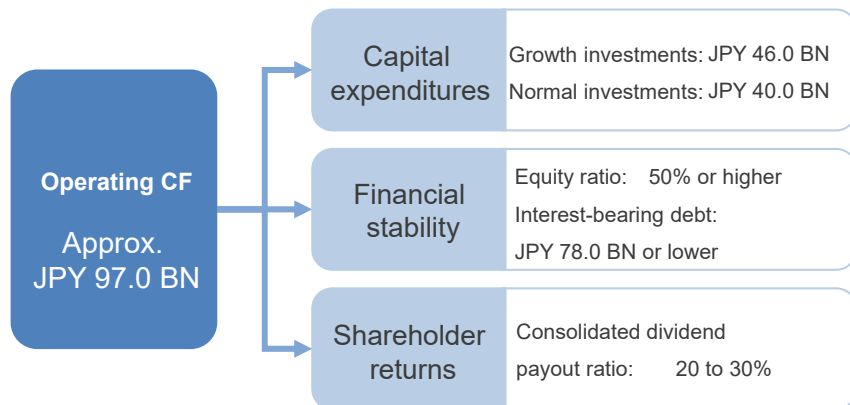
Capital expenditure results and forecasts

Approx. JPY 280.0 BN over 10 years

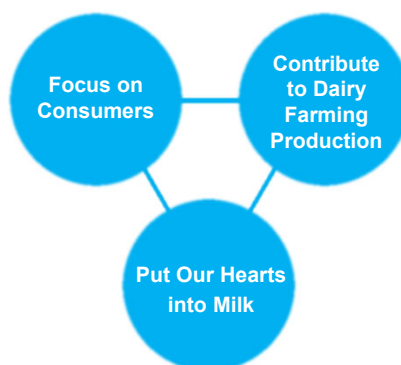




Cash flows



The Megmilk Snow Brand Group strives to fulfill our three missions and create new value for milk in order to exist as a company that contributes to society.



Make the Future with Milk.

☐ Group initiatives for the realization of a Sustainable Society



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| CSR Domain | CSR Material Issues | |
|---------------------------|---|--|
| Food and Health | Milk for contributions to food and health | |
| Dairy Farming | Contributing to sustainable dairy farming | |
| Environment | Reducing environmental load | |
| People and Society | Realization of a diverse and motivating workplace | |
| | Contributing to local community | |

③ FYE3/2021 Forecast of Consolidated Financial Results



Forecast of Consolidated Financial Results
FYE3/2021



(Billion yen, %)

■ Operating results ■

| | FYE3/2020 | FYE3/2021 (forecast) | YoY change | YoY % change |
|------------------|-----------|-------------------------|------------|-----------------|
| Net sales | 613.4 | 620.0 | +6.5 | 101.1 |
| Operating profit | 17.9 | 19.0 | +1.0 | 105.6 |
| Ordinary profit | 19.6 | 20.5 | +0.8 | 104.2 |
| Profit * | 12.1 | 13.0 | +0.8 | 106.9 |

* Profit attributable to owners of parent

■ Dividends ■

| | | | |
|-------------------|--------|---------------------------|-------|
| Ordinary dividend | 40 yen | Consolidated payout ratio | 20.8% |
|-------------------|--------|---------------------------|-------|



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Make the Future with Milk.

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Forward-looking statements such as performance forecasts contained in this document are based on management's expectations and assumptions in light of information currently available and are not the commitment by the Company. Actual results may differ from the forecasts in this document due to change in the business environment and other factors. Furthermore, forecasts do not reflect the impact of COVID-19.

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